Chapter II
Review Of Literature
2-1. Introduction

This section reviews the literature on the choice of imports and world economic growth and some of the other variables that depend on them. Second, we discuss non-Asian countries in two parts;

1- Theoretical Literature in non-Asian countries 2- empirical literature in non-Asian countries. Third, we discuss Asian countries in two parts. 1- Theoretical Literature in Asian countries. 2- Empirical literature in Asian countries. Fourth we discuss about Iran in two part 1- Theoretical literature in Iran. 2- Empirical literature in Iran.
2-2. Non-Asian countries

2-2-1. Theoretical Literature (Non-Asian)

(Munthali, Simwaka et al. 2010) studied on the real exchange rate and growth in Malawi. They focused on the impact of real exchange rate on savings rate and economic growth. It further explores the savings transmission mechanism through which a link can take place in the country.

The results show that real effective exchange rate (REER) volatility has adverse effects on economic performance. Contextually, an appreciated REER is significantly and positively correlated with economic growth reflecting Malawi’s net-importer position. On the other hand, REER volatility is significantly and negatively correlated with growth, reflecting investors’ preference for a stable exchange rate. With regard to savings, the study finds that appreciation of the REER (or nominal exchange rate) would encourage savings. The study also finds that devaluation of the REER has an insignificant effect on economic growth in the long-run.

The negative impact of real exchange rate volatility on economic growth suggests that eliminating real exchange rate volatility can have strong growth-enhancing effects. Government has a variety of instruments at their disposal to influence the level, and reduce the volatility of the real exchange rate.
The options include currency intervention (building up foreign exchange reserves) and eliminating institutional and market failures.

(Kalyoncu, Ozturk et al. 2009) argued devaluation and trade balance in Latin American countries. Their aim was to examine effectiveness of devaluation on the trade balance in four countries: Argentina, Brazil, Mexico and Peru. They used the Johansen-Juselius co-integration test and impulse response function to estimate the long-run and short run effects of devaluation on the trade balance. The estimated results suggest that depreciation improves the trade balance in the long run for the case of Argentina and Peru, and in the short-run there has been J-curve in Argentina and Peru. In addition, the co-integration is found among the four variables (trade balance, domestic income, foreign incomes and real exchange rate) in the case of Argentina and Peru. The results also indicate that there is no co-integration relationship between these variables for Brazil and Mexico. And they found the evidence of the J-curve pattern was found for Argentina and Peru only.

(Rodrik 2008) studied the real exchange rate and economic growth and that undervaluation of the currency (a high real exchange rate) stimulating economic growth. This is true particularly for developing countries.
This finding is robust to using different measures of the real exchange rate and different estimation techniques. He also provides some evidence that the operative channel is the size of the tradable sector (especially industry). These results suggest that tradable goods super disproportionately from the government or market failures that keep poor countries from converging towards higher-income levels. He presents two categories of explanations as to why this may be so, focusing on (a) institutional weaknesses, and (b) product-market failures. A formal model elucidates the linkages between the level of the real exchange rate and the rate of economic growth.

(Aghion, Bacchetta et al. 2005)told that Offers empirical evidence that real exchange rate volatility can have a significant impact on the long-term rate of productivity growth, but the effect depends critically on a country’s level of Financial development. For countries with relatively low levels of nonofficial development, exchange rate volatility generally reduces growth, whereas for financially advanced countries, there is no significant effect. Their empirical analysis is based on an 83 country data set spanning the years 1960-2000; their results appear robust to time window, alternative measures of financial development and exchange rate volatility, and outliers. They also offer a simple monetary growth model in which real exchange rate uncertainty exacerbates the
negative investment effects of domestic credit market constraints. Their approach delivers results that are in striking contrast to the vast existing empirical exchange rate literature, which largely finds the effects of exchange rate volatility on real activity to be relatively small and insignificant.

(Opoku-Afari 2004) worked on measuring the real effective exchange rate (reer) in Ghana. The focus of the paper was on how important the definitions and measurement of the concepts of real exchange rates are in analytical and empirical work. This work seeks to identify, define and review measures of the real exchange rate for Ghana. They discuss methodological issues surrounding the measurement of real exchange rates, including choosing price and cost indices. The choice of trading partners to include, base year and the weighting scheme used are not very important; alternative measures with different trading partners and weights move very closely and share a common trend in the long run. However, the choice of price indices matters. Ghana seems highly competitive more recently based on the GDP-deflator index but much less so when the CPI index is used in the computation of the real exchange rate.

(Coleman and Payne 2003) worked on factors affecting trade in Mexican imports of poultry meat from the United States. They told U.S. exports of poultry to
Mexico have increased steadily since NAFTA came into force in January 1994. The Mexican poultry industry has become increasingly concerned about these exports, arguing that it cannot compete with U.S. products. The Mexicans argue that U.S. poultry exports to Mexico are duty free under NAFTA (as of January 1, 2003). The Mexican industry also argues that U.S. poultry benefits from low-priced feed resulting from U.S. Government farm programs. They analyzed the impact of tariffs and U.S. feed grain programs on U.S. exports of poultry, and find that other factors appear to be more important in explaining trade. Specifically, Mexican preferences for dark meat provide large price incentives for U.S. exporters, while Mexican Government policies in support of its grain sector penalize poultry producers in Mexico.

(McPherson and Rakovski 2000) studied on exchange rates and economic growth in Kenya. They expand on an earlier paper which had discussed the relationship between economic growth and exchange rate in Kenya. Based on data for the period 1970 to 1996, they analyze the possible direct and indirect relationship between the real and nominal exchange rates and GDP growth. They derive these relationships in three ways: within the context of a fully specified (but small) macroeconomic model, as a single equation instrumental variable estimation, and as a vector-auto regression model. The estimation results from the three different
settings show that there is no evidence of a strong direct relationship between changes in the exchange rate and GDP growth. Rather, Kenya’s rate of economic growth has been directly affected by fiscal and monetary policies, the availability of foreign aid and other economic variables, particularly the growth of exports. Together, these factors have tended to sustain a pattern of real exchange rate over-valuation, which has been unfavorable for growth. Their conclusion is that improvements in exchange rate management alone are not adequate for the revival of growth in Kenya, but have to be part of a broader program of economic reform.

2-2-2. The Empirical Literature (Non-Asian)

(Joseph and Akhanolu) investigated the impact of exchange rate volatility on trade flow in Nigeria. Using annual data for the period of 1970 – 2009, they estimated the exchange rate volatility with the use of Generalized Autoregressive Conditional Heteroskedasticity (GARCH). Model testing procedure includes the coefficient of determination, the Durbin-Watson and the F-Statistics. Results revealed that an inverse and statistical insignificant relationship exist between aggregate trade and exchange rate volatility in Nigeria. They therefore recommend that monetary authority should ensure transparency in the process
for determining exchange rate such that various economic distortions associated with exchange rate might be minimized. With this in place, there will be free air for trade flows into Nigeria, which eventually will lead to the growth of the economy.

(Sekantsi) told their research paper empirically examines the impact of real exchange rate volatility on trade in the context of South Africa’s exports to the U.S. for the South Africa’s floating period January 1995-February 2007. In measuring real exchange rate volatility, he utilized GARCH. After establishing the existence of co-integration among the variables involved in our two-country export model, they estimated long-run coefficients by means of ARDL bounds testing procedure proposed by Pesaran, et al. (2001). Their results indicate that real exchange rate volatility exerts a significant and negative impact on South Africa’s exports to the U.S. Therefore, stable and competitive exchange rate and sound macroeconomic fundamentals are required in order to improve international competitiveness and greater penetration of South African exports to international markets.
(Rodrik 2008) worked on the real exchange rate and economic growth. He shows that undervaluation of the currency (a high real exchange rate) stimulates economic growth. This is true particularly for developing countries. This finding is robust to using different measures of the real exchange rate and different estimation techniques. He also provided some evidence that the operative channel is the size of the tradable sector (especially industry). These results suggested that tradable goods suffer disproportionately from the government or market failures that keep poor countries from converging towards higher-incomes levels. He presented two categories of explanations as to why this may be so, focusing on (a) institutional weaknesses, and (b) product-market failures. A formal model elucidates the linkages between the level of the real exchange rate and the rate of economic growth.

(Lee, Milesi-Ferretti et al. 2008) studied on real exchange rates and fundamentals for a cross-country perspective. They describe research in progress by the author(s) and are published to elicit comments and to further debate. Their paper employs newly constructed measures for productivity differentials, external imbalances, and commodity terms of trade to estimate a panel co-integrating relationship between real exchange rates and a set of fundamentals for a sample of 48 industrial countries.
and emerging markets. It finds evidence of a strong positive relation between the CPI-based real exchange rate and commodity terms of trade. The estimated impact of productivity growth differentials between traded and nontrade goods, while statistically significant, is small. Increases in net foreign assets and in government consumption tend to be associated with appreciating real exchange rates.

(Jalilian, Kirkpatrick et al. 2007) argued on the impact of regulation on economic growth in developing countries: a cross-country analysis. The role of an effective regulatory regime in promoting economic growth and development has generated considerable interest among researchers and practitioners in recent years. In particular, building effective regulatory structures in developing countries is not simply an issue of the technical design of the most appropriate regulatory instruments; it is also concerned with the quality of supporting regulatory institutions and capacity. They explored the role of state regulation using an econometric model of the impact of regulation on growth. The results based on two different techniques of estimation suggest a strong causal link between regulatory quality and economic performance.
Awokuse (2007) studied on causality between exports, imports, and economic growth: evidence from transition economies. He told that the economic growth effects of CEEC market liberalization and increasing trade access to the larger EU market is an important empirical question worthy of investigation. His study examines the impact of export and import expansion on growth in three transition economies. The empirical results suggest that trade stimulates economic growth.

Aguirre, Ferreira et al. (2003) argued the impact of exchange rate volatility on Brazilian manufactured exports. They told Currency markets show different degrees of volatility, reflecting the particular economic circumstances that each country faces through time.

The problem of exchange rate volatility has given rise to a broad debate – theoretical as well as empirical – in the economics profession. There is no consensus as to whether exchange rate volatility influences trade volumes and the sign of the relation has also been a matter of dispute.

This question has been at the center of the current economic policy debate in Brazil, involving academic researchers, policymakers and the business press, all pointing out the potential deleterious effects on the country’s exports of the
“excessive” volatility observed in the currency market since the adoption of a floating exchange rate in 1999.

They told, empirical evidence on the impact of exchange rate volatility on the volume of Brazilian manufactured exports in the period 1986–2002 is presented.

(Ozturk 2006) argued on exchange rate volatility and trade. He reviews the literature dealing with the effects of exchange rate volatility on trade. The overall evidence is best characterized as mixed as the results are sensitive to the choices of sample period, model specification, proxies for exchange rate volatility and countries considered (developed vs. developing). Numerous empirical studies have been conducted to investigate whether trade is influenced by exchange rate volatility. It is widely believed that increased exchange rate volatility inhibits the growth of foreign trade.

(Novy 2006) worked on exchange rate risk and endogenous currency invoicing and he told “The choice of invoicing currency for trade is crucial for the international transmission of macroeconomic policy. He develops a three-country model that indigenizes the choice of invoicing currency and that allows for a share of firms’ costs to be denominated in foreign currency, consistent with the empirical evidence on the high degree of pass-through to import prices.
Invoicing decisions are driven by firms’ desire to hedge costs but also by exchange rate volatility and currency co-movements. The model is tested empirically with a data set that spans ten currencies and 24 reporting countries, confirming the importance of currency co-movements for the decision to invoice in vehicle currency. The endings also implies that if the U.S. share of world output continues to fall, other currencies will increasingly replace the U.S. dollar as an International vehicle currency.

(Faruqee 2004)argued exchange rate pass-through in a set of euro area prices along the pricing chain is examined. Using a vector auto regression (VAR) approach, the empirics analyze the joint time-series behavior of the euro exchange rate and a system of euro-area prices in response to an exchange rate shock. The impulse-response functions from the VAR estimates are used to identify in a ‘new open economy macroeconomics model’s those key behavioral parameters that best replicate the pattern of exchange rate pass-through in the euro area. Area-wide prices are found to display incomplete pass-through, consistent with euro currency-pricing and pricing-to-market behavior. The results are compared to those for the other major industrial economies, and suggest that, as with the United States, “expenditures witching” effects on the current account still operate but are generally small.
(Gabriel, Sola et al. 2001) studied on residual-based tests for co-integration and multiple regime shifts. They examined the properties of several co-integration tests when long run parameters are subject to multiple shifts, resorting to Monte Carlo methods. They assume that the changes in co-integration regimes are governed by an unobserved Markov chain process. This specification has the considerable advantage of allowing for an unspecified number of stochastic breaks, unlike previous works that consider a single, deterministic break. Their Monte Carlo analysis reveals that testing co-integration with the usual procedures is a quite unreliable task, since the performance of the tests is poor for a number of plausible regime shifts parameterizations.

(Detken and Hartmann 2000) provided a broad empirical examination of the major currencies’ roles in international capital markets, with a special emphasis on the first year of the euro. A contribution is made as to how to measure these roles, both from the viewpoint of international financing as well as from the one of international investment activities. Time series of these new measures are presented, including euro aggregates calculated up to five years back in time. The data allow for the identification of changes in the role of the euro (or other main currencies) during 1999 compared to the aggregate of euro predecessor
currencies, net of intra-euro area assets/liabilities, before stage 3 of EMU. A number of key factors determining the currency distribution of international portfolio investments, such as relative market liquidity and relative risk characteristics of assets, are also examined empirically. It turns out that for almost all important market segments for which data are available; the euro immediately became the second most widely used currency for international financing and investment. For the flow of international bond and note issuance it has even slightly overtaken the US dollar in the second half of 1999.

The data also suggest that this early supply of euro bonds by non-euro area residents, clearly exceeding the euro predecessor currency aggregate, is actually absorbed by euro area residents and not by outside investors so far.

(Gregory and Hansen 1996) studied on residual-based tests for co-integration in models with regime shifts. They examine tests for co-integration which allow for the possibility of regime shifts. They propose ADF-Za, and Zt-type tests designed to test the null of no co-integration against the alternative of co-integration in the presence of a possible regime shift. In particular they consider cases where the intercept and/or slope coefficients have a single break of unknown timing. A formal proof is provided for the limiting distributions of the various tests for the regime shift model (both a level and slope change). Critical
values are calculated for the tests by simulation methods and a simple Monte Carlo experiment is conducted to evaluate finite-sample performance. In the limited set of experiments, they find that the tests can detect co-integrating relations when there is a break in the intercept and/or slope coefficient. For these same experiments, the power of the conventional ADF test with no allowance for regime shifts falls sharply. As an illustration we test for structural breaks in the U.S. long-run money–demand equation using annual and quarterly data.

2-3- Asian countries

2-3-1. Theoretical Literature (Asian)

(Desai) worked on importance of literacy in India’s economic growth. India today faces some grave challenges economically, Unemployment, underemployment, poverty and unequal distribution of wealth being few of them. Nothing other than rectifying the low literacy rate can present solutions to almost all these problems. Further literacy also reduces the economic inequality and reduces the income disparity, all of which India faces today.

He attempted to study the impact of literacy on economic growth and population growth and also how all the three variables are related to each other. By doing so, there is an attempt made to understand the key challenges which India faces
today and highlight the importance of addressing those challenges as they could potentially turbo-change prosperity of the country.

Literacy rate is one of the key indicators of the economic situation in a country as increased literacy rate leads to enhancement of a country’s human capital. Literacy also provides better employment prospects and gives a higher socio-economic status. Increased literacy rate also leads to decreased population growth rate and thus a country’s resources better shared among less people. Thus literacy rate is given its due importance in this paper as a key to India’s prosperity.

(Kandil, Berument et al. 2007) argued examines the effects of exchange rate fluctuations on real output, the price level, and the real value of components of aggregate demand in Turkey. The theoretical model decomposes movements in the exchange rate into anticipated and unanticipated components. Unanticipated currency fluctuations help to determine aggregate demand through exports, imports, and the demand for domestic currency, and aggregate supply through the cost of imported intermediate goods and producers’ forecasts of relative competitiveness. Anticipated exchange rate appreciation has significant adverse effects, contracting the growth of real output and the demand for investment and exports, while raising price inflation. Unanticipated exchange rate fluctuations
have asymmetric effects that highlight the importance of unanticipated depreciation in shrinking output growth and the growth of private consumption and investment, despite an increase in export growth.

2-3-2. The Empirical Literature (Asian)

(Ramakrishna and Memdani) worked on Capital Account Convertibility increases inflows of foreign capital in the country and these inflows have got far reaching impact on the economy. In this article an attempt is made to study the impact of foreign capital inflows on macro-economic variables of the Indian economy such as IIP, Exports, and Imports. Using co-integration and Error Correction Models they found that the inflow of foreign capital (INFK) and FPI cause positively the change in the Index of Industrial production (IIP) i.e. economic growth in India. Their study also reveals that there is a bi-directional causal relationship between inflows of capital and imports; there is an evidence for economic growth influencing the inflows of FDI but not vice versa and Inflows of foreign capital causing an increase in exports. In view of these findings some policy measures relating capital inflows are suggested.

(Ping) worked on the economic and social effects of real exchange rate an Evidence from the Chinese provinces. He told real exchange rate exerts different
economic and social effects. If a real appreciation exerts positive effects on economic growth by exerting pressure on efficiency improvement and technological progress via workers’ motivation, education and capital intensity, it exercises negative Effects by deteriorating the international competitiveness in tradable sector and thus by destructing employment. An econometric model is estimated by using the GMM system estimation approach and panel data for the 29 Chinese provinces and over the period from 1987 to 2008. The results show that the real exchange rate appreciation had a negative effect on the economic growth, higher in coastal than in Inland provinces, contributing to a minimizing of the gap of GDP per capita between two kinds of the provinces. They show moreover that the real exchange rate appreciation acted negative effects on employment.

(McLeod and Mileva 2011) argued real exchange rates and productivity growth maintaining a weak real exchange rate is a widely emulated growth strategy, in part because of the success of Asian exporters, most recently China. Simulations of a simple two-sector open economy growth model based on Matsuyama (1992) suggest that a weaker real exchange rate can lead to a "growth surge", as workers move into traded goods industries with more "learning by doing" and exit non-traded goods sectors with slower productivity growth. Using the updated total
factor productivity (TFP) estimates from Bosworth and Collins (2003), panel estimates for 58 countries reveal the anticipated non-linear relationship between the real exchange rate and TFP growth: real currency depreciation raises TFP and GDP growth up to a point. Manufacturing exports appear to be one channel via which the real exchange rate affects TFP growth. Fears that a weaker real exchange rate might reduce investment and productivity growth by making imported equipment more expensive are not supported.

(Suresh and Reddy 2010) used exchange rate and OECD GDP to explain the exports of India for the period 1994 to 2008. Since the ADF and Phillips-Peron tests show the first order co-integration in Indian exports, OECD GDP and exchange rate, the first difference of the log of exports of India has been regressed on first differences of the log of OECD GDP and the log of one of the four exchange rate variables at a time namely the Trade weighted Real effective exchange rate (REERT), Exports weighted Real Effective exchange rate (REERX), Trade weighted Nominal Effective exchange rate (NEERT) and Export weighted nominal effective exchange rate (NEERX). The empirical results indicate that only OECD GDP is significant in explaining the Indian exports.
(Alam and Ahmad 2010) estimated the import demand function for Pakistan covering quarterly period 1982:Q1 to 2008:Q2 by employing ARDL approach. The result from ARDL analysis, support the hypothesis that in Pakistan there exist a long run relationship among, import demand, real economic growth, relative price of imports, real effective exchange rate and volatility of real effective exchange rate. It found that aggregate import demand is positively affected by real gross domestic product suggesting that import demand in Pakistan is growth driven. Further it found that relative price of imports may not decrease the import demand, which is quite obvious for growth driven economy. It also found that real depreciation of local currency and volatility of real effective exchange rate has no effect to decrease import demand in Pakistan in the long run. The evidence based on short run dynamic tends to indicate that real economic growth, relative price of imports, real effective exchange rate and real effective exchange rate volatility Granger cause import demand in the short-run.

(Uzunoz and Akcay 2009) worked on factors affecting the import the demand of wheat in turkey. They analyzed the factors affecting import demand for wheat during the period 1984-2006 by using double logarithmic-linear function. Turkey’s import demand for wheat was specified as a function of domestic prices, gross national product per capita, Turkish lira-US dollar exchange rate,
and lagged import, production value of wheat, domestic demand and trend factor. Data covering 1984-2006 periods were used to carry out to the study. The results have been shown that a change of domestic wheat prices is strongly affective on the wheat import demand and Turkish consumers would rather purchase domestic wheat than import wheat gradually.

(Yusoff 2010) investigates the long-run relationship between Malaysian trade balance and the real exchange rate using the co-integration technique. The results suggest that real ringgit exchange rate depreciation improves the Malaysian balance of trade in the long run. An error correction model is then estimated to study the short-run dynamics and found that the effects of ringgit real exchange rate depreciation last for about 2 years and exhibit the J-curve phenomenon. Approximately 55 percent of the adjustment to long run equilibrium takes place in the first quarter.

(Lisha) studied an empirical study of co-integration with structural breaks of Shanghai and Shenzhen stock markets. They told using co-integration techniques allowing for structural breaks, the paper tests the long-run equilibrium relationships between Shanghai and Shenzhen stock markets.
The conclusion has been reached that the co-integration relationship between them does have a structural break during the sample period. Through establishing error correction model and forecasting the future Shanghai synthesis index, it has been demonstrated that co-integration model with regime shifts can well characterize the equilibrium relationships between the two stock markets when there exists a structural break.

(Yi 2009) investigated China’s exchange rate movements and corporate currency invoicing strategies. After that being told; After China introduced a new managed floating exchange rate regime in 2005, the persistent appreciation of the Renminbi against the U.S. dollar led Chinese firms to reassess their choice of an invoice currency among the dollar and other international alternatives in which to price their exports. Jingtao Yi performs a systematic invoice currency analysis through surveying literature, summarizing criteria for decision making, and evaluating the choices available to Chinese exporters who seek to maximize expected profits. He finds that the euro may play an increasing role as the invoice currency at Chinese firms, though the U.S. dollar will still play a dominant role. Chinese exporters may shift gradually from the dollar to the euro in the face of the falling dollar, balancing between the two by necessity.
(Uğur 2008) worked on import and economic growth in Turkey by evidence from multivariate VAR analysis. They made an attempt to analyze empirically the relationship between imports and economic growth in Turkey. In order to make an elaborate examine of the import-economic growth relationship, import is decomposed to its categories and then a multivariate VAR analysis is used to determine the relationship. Empirical results derived from IRFs and VDCs show that while there is a bidirectional relationship between GDP and investment goods import and raw materials import, there is a unidirectional relationship between GDP and consumption goods import and other goods import.

(Bhatt 2008) studied on India's trade competitiveness and exchange rate policy. There is a general view that the export performance of India is unsatisfactory because of its low competitiveness, but no systematic attempt has been made to validate this view. India needs a 12 per cent compound annual growth rate for exports during 2002–07 to reach 1 per cent of world exports of US$ 80.5 trillion. The Indian government has made serious efforts to reform trade policies to make exports more competitive globally. An attempt has been made in this article to measure India's trade competitiveness and examine the role of the exchange rate policy in trade competitiveness. The results indicate that when nominal and real exchange rates appreciate, export price competitiveness (Relative Export Price
[REP]) improves, but the competitiveness of profitability (Relative Profitability of Exports and Profitability of Exports Index) deteriorates.

(Bahmani-Oskooee and Wang 2007) studied on the impact of exchange rate volatility on commodity trade between the U.S. and China. They told Exchange rate uncertainty is said to have negative or positive effects on the trade flows. A Large body of the empirical research that ties to address the issue has used aggregate trade data between one country and rest of the world, or bilateral total trade data between two countries. The support for a significant relation between a measure of exchange rate volatility and trade flows is negligible from these studies. Hear, when they use disaggregated data between the U.S. and China at commodity Level (88 industries) and a bounds testing approach to co-integration, they find that almost half of the industries are sensitive to a measure of exchange rate uncertainty.

(Habib and Kalamova 2007) studied on the real exchange rate of oil exporting countries. They investigate whether the real oil price has an impact on the real exchange rates of three main oil-exporting countries: Norway, Russia and Saudi Arabia. They create their measure of the real effective exchange rates for Norway and Saudi Arabia (1980-2006) and for Russia (1995-2006), testing if
real oil prices and productivity differentials against 15 OECD countries influence exchange rates. In the case of Russia it is possible to establish a positive long-run relationship between the real oil price and the real exchange rate. However, they find virtually no impact of the real oil price on the real exchange rates of Norway and Saudi Arabia. The diverse exchange rate regimes cannot help in explaining the different empirical results on the impact of oil prices across countries, which instead may be due to other policy responses, namely the accumulation of net foreign assets and their sterilization, and specific institutional characteristics.

(Wang and Barrett 2007) worked on estimating the effects of exchange rate volatility on export volumes. They take a new empirical look at the longstanding question of the effect of exchange rate volatility on international trade flows by studying the case of Taiwan’s exports to the United States from 1989-1999. In particular, they employ sectorial level, monthly data and an innovative multivariate GARCH-M estimator with corrections for leptokurtic errors. This estimator allows for the possibility that traders’ forward-looking contracting behavior might condition the way in which exchange rate movement and associated risk affect trade volumes. They find change in importing country industrial production and change in the expected exchange rate jointly drive the trade volumes.
More strikingly, monthly exchange rate volatility affects agricultural trade flows, but not trade in other sectors. These results differ significantly from those obtained using more conventional and restrictive modeling assumptions.

(Fidan 2006) argued Impact of the Real Effective Exchange Rate (REER) on Turkish Agricultural Trade. He told the autoregressive vectors are used to know dynamics of the Agricultural export and import, and the real effective exchange rate (REER). In order to analyze the interactions, the impulse-response function is used in decomposition of variance, causality of Granger as well as the methodology of Johansen to know the relations co integration. The REER causes agricultural export and import in the sense of Granger. The influence displays the innovations of the REER on the agricultural export and import is not very great and the duration of the effects is short. It displays that REER has an immediate positive effect, after the tenth year it displays smooth results on the agricultural export. Evidence of a vector exists co integration, in short run; REER has smaller effects on export and import, compared to the long-run effects.

(Chinn 2006) study on a primer on real effective exchange rates: determinants, overvaluation, trade flows and competitive devaluation. Several alternative measures of effective exchange rates are discussed in the context of their
theoretical underpinnings and construction. Focusing on contemporary indices and recently developed econometric methods, the empirical characteristics of these differing series are examined for the U.S., the euro area, and several East Asian countries. The issues that confront the applied economist or policymaker in using the measures of real effective exchange rates available are illustrated in several case studies from current interest: (i) evaluating exchange rate misalignment; (ii) testing the Balassa-Samuelson effect; (iii) estimating the price responsiveness of trade flows; and (iv) assessing the potential impact of competitive devaluations.

(Mookerjee 1997) studied export growth has been an important element in the recent restructuring of the Indian economy. This has been achieved by the authorities through a combination of currency depreciation, as advocated by the IMF, and through strong support for the recently concluded GATT round of negotiations. The latter strategy, it is hoped, will eventually lead to greater access to global markets, especially the OECD. Both strategies, however, have not been costless. Depreciation of the currency has led to rising inflation, and ratification of GATT (WTO) has resulted in protests in India, especially from the agricultural sector.
It is against this background that the present paper attempts empirically to gauge the nexus of India’s export growth, exchange rates and global GDP growth over approximately three decades, using the time series techniques of co-integration and causality. Specifically, it is hypothesized that export volume is a function of exchange rates and global economic growth as proxies by global GDP growth. Such an analysis, it is hoped, will provide insights into the appropriate long-term strategy that should be employed by India if it is to maintain continued export growth over the long term.

The results suggest that India would benefit from a policy of managed export growth rather than export growth that is stimulated by exchange rate depreciation.

(Qiang) is Researched on the Relationship Between Import Trade Structure and Economic Growth in China and analyzed percentage change of primary products and industrial products in Chinese import, and made an further analysis on the inner proportion of primary products and industrial products,; he studied the correlation between the import structure and economics growth in China and the result is shown that the primary products play a positive and promoting role in economic growth, while industrial products have negative effects t ; Finally the
article put forward some related countermeasure proposal to improve the relations between the import structure and the Chinese economic growth.

2-4-Iran country

2-4-1-Theoretical literature in Iran

(Samimi, Adibpour et al. 2012) worked on exchange rate Uncertainty and Imports: Evidence from Iran. They told foreign trade of any country is considered as one of the major economic sector of that society as far as some refer trade growth as the “economics growth engine”. Foreign exchange rate and its fluctuations is one of the effective factors in volume of foreign trade. The present research studies the method of effects of real exchange rate uncertainty on imports demands in the Iranian economy during 1979-2007. In this respect, first, among various criteria of real exchange rate uncertainty, by using auto-regressive conditional heteroskedasticity (ARCH) model to calculate the real exchange rate uncertainty; and the real exchange rate uncertainty variable along with other variables such as GDP were put into imports regression mode. By performing co-integration test among existing variables in import model and certainty of existence of minimum one long-term relation among them, the vector error correction model was assessed by imposing a long-term vector auto-
regression model. Based on the results, it was specified that the real exchange rate uncertainty during the concerned period had negative impact on imports. In addition, the variable of real exchange rate was affected from the negative impact on imports. Furthermore, the GDP experienced positive impacts on the imports of the country.

(Safdar and Motiee 2011) worked on effect of foreign trade on economic growth in Iran. They told foreign trade sector as part of the country’s economy, supplying the needs of other parts of the section is responsible for providing that it is not possible through domestic production. But so far, the performance of this sector not only essential needs and non-target attainable within the country has not followed, but has acted as a tool for intensifying the policies on all aspects of economic dependency and multilateral basis.

Therefore is considered getting rid of single-product economy of oil as one of the main goals on the way to achieve economic independence, political. For Iran country that has attempted to do this to diversify production and export of goods of special importance.

(Barghandan, Barghandan et al. 2012) investigated the Effect of Real Effective Exchange Rate on the Iranian Pistachio Export. They told Increase in the
exchange rate may not always promote export of non-oil production and exports of various goods; rather they might have different reactions to the exchange rate. Hence, they tried to examine the effect of real effective exchange rate on Iranian pistachio export.

The results showed that the real effective exchange rate, income of importer countries and domestic production have positive effects on export of pistachio but the effect of the domestic price index to the global pistachio export price index ratio was negative. Hence, it is recommended in order to produce more the crop as well as reduce the domestic price adopted employing advanced production & processing methods, extending the cultivation levels and improving the performance per hectare so that promote the ways of pistachio export.

2-4-2-Empirical literature in Iran

(Nazar 2012) investigated the relationship between real exchange rate uncertainty and private investment in Iran for the period of 1988 to 2008 by using quarterly data and applying bivariate generalized autoregressive conditional heteroskedasticity (Bivariate GARCH) model in the Iranian economy. They employ this model to examine in a unified empirical framework the interactions between the variables. The main findings are that there are bidirectional mean spillovers between real exchange rate and private investment.
Real exchange rate uncertainty significantly influences private investment and has a negative effect on it. And their empirical evidence shows that private investment uncertainty affects the level of private investment, negatively.

(Gilaninia, Mousavian et al. 2012) are considered, Economic Growth in Iran and Effective Factors on Its Changes. Effect of important component examine on economic growth. Components of real exchange rate deviation, effect monetary variables, the importance of foreign capital flows, the theory of equality power and structural models were used for measuring real rate deviation indicator, deviation of real exchange rate in each model makes a negative impact on economic growth in Iran, In economical real variables (production and employment) and amount of money we cannot find significant relationship and monetary policy is neutral in Iran and real Gross Domestic Product (GDP) don’t has strong fluctuation in recent years. In examining the role globalization in attracting foreign capital, the results showed a positive relationship between foreign direct capital flows and investment in portfolio on economic growth in countries that have a higher degree of globalization. Finally, commercial cycle fluctuations are caused decrease economic growth in long term and fluctuations in output growth led to distrust in production and is caused reduces Investors and economic growth in the long term.
(Kazerooni and Feshari 2010)told Up to now, the impact of real exchange rate on the non-oil exports of Iran has been mainly on focus. However, the more important aspect of the fluctuations in exchange rate is its degree of volatility which can have profound effect on the nonoil exports. Hence, the main objective of their work is to investigate the linkage between non-oil exports and the real exchange rate volatility for Iran over the period of 1971-2007. For this purpose, a proxy for the real exchange rate volatility has been estimated by using GARCH model. Then, a conventional exports function has been estimated by Johansen’s multivariate co-integration approach. The empirical findings reveal that among the explanatory variables, the real exchange rate and its volatility have positive and negative impact on the non-oil exports of Iran respectively.

(Mehrara 2012)studied on threshold regression model to study relationship between government size and economic growth during 1967-2007 in Iran. The results show that linear methods are not capable to explain the relationship between government expenditure (including investment expenditure, consumption expenditure and total expenditure) and economic growth. The findings indicate government expenditure has positive effect on economic growth, but after crossing a threshold, this effect turn reversed. The thresholds
are estimated 22.8% for total expenditure ratio, 9.8% for investment expenditure and 12.9% for consumption expenditure. The ratio of consumption expenditure is far away the threshold in 2007. Therefore, reconsidering in quantity, quality and efficiency of this expenditure is necessary.

(Mehdi and Reza 2011) studied on effect of export growth in Iran. They told economic growth and its related factors, both theoretical and experimental aspects have been considered economists and policy makers of countries. Also, more than two decades the relationship between exports and economic growth has been had special importance. The theoretical framework was designed based on this assumption that the total product in the economy was divided into two parts, production for inside (N) and production for exports (X) and each two section production is a function of factors allocated capital and labor. The data were collected from 1961 to 2006 and were analyzed using Ordinary Least Squares (OLS) model. Hence in this article, we want to do Feder model and econometrics conventional methods to survey effect of exports on economic growth (industry & mining sector, services and agriculture). The results of this study show that each section export growth has a positive effect on the growth of value added in the same section. But the effect of export growth on the value added in industry and mining sector is more than other sectors. Together the
independent variables explained 87% of the variance in the dependent variables. The remaining 13% was due to unidentified variables. In relation to that, we can conclude that explanatory power is high for the equation.
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